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Toward Free Trade with Latin America

BY CONSTANT SOUTHWORTH

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Toward Free Trade with Latin America

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THROUGH various measures the United States has helped Latin America to compensate for the loss of its continental European market during the present war. The Export-Import Bank has made a number of loans, and public and private agencies have bought large quantities of raw materials for use in the defense program. While appreciating this assistance, Latin American countries are worried about its temporary or emergency character. They realize that loans can ultimately be repaid only in the form of exports and fear that this country will sharply reduce its purchases after the war. They would like the United States to provide a larger and more permanent market for their surplus products than they had prior to the emergency. Several proposals to this end have been advanced. (1) Some envisage reciprocal freedom of trade between the United States and Latin America. (2) Others seek establishment of a complete customs union of the Americas, or a system of preferential tariff treatment for products of members of the Pan American Union. This study will discuss only the probable effects of the removal by the United States of import duties on major Latin American commodities. Because of existing commercial treaties incorporating the most-favored-nation clause, such tariff concessions would have to be extended also to non-American countries. Some way of freeing the United States from this obligation may be found, however, if the advantages of free trade with Latin America are clearly evident.

Latin American countries have always depended very largely on the exportation of a relatively few agricultural and mineral staples. In the three-year period 1936-38, twenty-three commodities[1] accounted for 86 per cent of the aggregate value of exports from the twenty Latin American Republics. Only 32 per cent of their value went to the United States.[2] Although Latin America is trying to diversify its economic activity, it will for a long time remain a large producer of foodstuffs and raw materials. The problem of finding stable markets for these products will therefore continue to be of paramount concern.

PRODUCTS WHICH THE U.S. EXPORTS

Latin American exports can be divided into the commodities of which this country ordinarily has an exportable surplus, and those of which its imports normally exceed its exports. The principal products in the first category are wheat, petroleum and copper. Removal of U.S. duties on these commodities presumably would not result in extensive imports from Latin America, at least so long as this country continues to export the same products to other foreign markets at competitive prices.

WHEAT

Argentina, the only important Latin American wheat-exporting country, has sold the U.S. practically no wheat. Since 1924 this country has levied a duty of 42 cents per bushel of 60 pounds, which was equivalent to 33 per cent ad valorem on total dutiable imports for consumption in 1938.

Ordinarily the U.S. exports large quantities of wheat and imports very little. Only in a few recent years of short crops has this country bought substantial amounts of foreign wheat for human food. U.S. imports, nearly all of which come from Canada, consist primarily of bonded duty-free wheat for milling and export. In 1939 and again in 1940, the U.S. export surplus declined, due primar-

1. These were petroleum and its products, coffee, sugar, corn, gold, silver, meats, copper, cotton, wheat, wheat flour, wool, flaxseed, hides and skins, nitrate, iodine, lead, bananas, tin, cacao, zinc, tobacco leaf, and quebracho and its extracts.

2. U.S. Tariff Commission, *The Foreign Trade of Latin America* (Washington, 1940).

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ily to war conditions; and 1941 may witness an excess of imports.

In the years 1936-38 this country exported an annual average of 41 million bushels, while Argentina shipped 91 million. Much of the wheat the U.S. exports is similar to the hard and semi-hard wheats which are the principal types exported by Argentina. The fact that wheat from the U.S. has been able to compete with Argentine grain on European markets indicates that removal of the duty on Latin American wheat in recent years would not have resulted in large Argentine shipments to this country, or a substantial reduction in the price of domestic wheat.

The relation of wheat prices in the United States to those in Argentina is now, and will probably continue to be, largely determined by government support. Exports from both countries are subsidized. Surpluses of wheat have frequently existed in Argentina, and it is quite possible that, if the U.S. tariff were abolished, Argentina would ship considerable quantities of "distress" stocks to this country, thus precipitating a decline in the price of domestic grain.

PETROLEUM

Under the influence of war conditions, U.S. imports of petroleum and its products have recently surpassed exports. Normally, however, this country has a large export surplus. In 1938, for example, only 26 million barrels of crude oil and 26.2 million of fuel oil were imported into the U.S., while 188 million barrels were shipped abroad. Imports have consisted almost entirely of crude, shipped direct from Latin America (primarily Venezuela) for conversion into fuel oil in this country; and of fuel oil, produced in the Dutch West Indies from Latin American crude (largely Venezuelan). Domestic crude (except most of the California product) is relatively light in gravity and yields a high percentage of gasoline, whereas most of the Latin American crude is comparatively heavy. U.S. imports are the result of proximity to markets, the relative scarcity of low-grade crude in this country, company affiliations, the practice of refining in bond for re-export, and other factors.

Petroleum and its products, although duty-free under the Tariff Act, have been subject since 1932 to an import tax—the same, in effect, as a duty. Crude petroleum and fuel oil for refining under bond and export, or for ship supply, enter tax free.[3] The import tax of ½ cent per gallon on other crude and fuel oil was reduced in the trade agreement with Venezuela on December 16, 1939 to ¼ cent per gallon on a limited amount of imports. In the first 11 months of 1940 the ad valorem equivalent of the tax collected on 26.9 million barrels of crude imported at the reduced rate was 13.8 per cent, and the ad valorem equivalent of the tax collected on 10 million barrels imported at the full rate (practically all from Mexico) was 28.9 per cent. Of the taxable fuel oil (including topped crude) imported in the same period, 21.9 million barrels entered at the reduced rate, which was equivalent to 12.6 per cent ad valorem, and 616,000 barrels came in at the full rate, equivalent to 23 per cent ad valorem. Much the greater part of taxable imports of crude and fuel oil now enters at the lower rate.

A comparison of imports before and since reduction of the tax is of some significance. In 1938 imports of taxable crude petroleum and fuel oil from Venezuela, the Dutch West Indies and Colombia amounted to 28.6 million barrels. In 1939 such imports amounted to 34.9 million barrels, of which only 2.1 million entered after December 15 at the reduced rate. From January 1 to December 28, 1940, under the lower rate, they totaled 52.4 million barrels. The increase over 1939 equaled only about 1½ per cent of domestic production in 1939. Since the low-duty quotas assigned to these three countries were not filled in 1940, the situation was the same as if an unrestricted reduction had been made in the tax on imports.

The situation regarding imports from Mexico is somewhat different because most of the Mexican oil pays the higher tax under the customs-quota allocation formula. In the first 11 months of 1940 nearly 90 per cent of U.S. imports of taxable crude from Mexico were subject to the ½ cent rate. Although any free-trade arrangement would remove a higher duty on the bulk of imports from Mexico than on those from Venezuela, the Dutch West Indies[4] and Colombia, shipments from Mexico to the U.S. would probably rise no more than exports from these other countries. It is true that purchases of crude petroleum and fuel oil from Mexico increased from 1.7 million barrels in 1939 to 14.4 million in 1940, but this rise is largely attributable to recovery from the slump in exports attendant on the Mexican oil expropriations of 1938, and the shortage of tankers that followed. The available export surplus is probably not so

3. Of the 26 million barrels of crude imported in 1938, 3.6 million were admitted free for refining and export; of the 26.2 million barrels of fuel oil (including topped crude) imported, 18.9 million came in duty-free for ship supply; the remainder, both crude and fuel, was taxable.

4. Although in this study the Dutch West Indies has not specifically been included among the countries on whose products the U.S. might abolish its tariff, it may be assumed in connection with the petroleum problem that duties on Dutch West Indian products would also be removed.

large that removal of the tax would greatly increase imports over their recent rate.

The underlying factors of competition in petroleum and petroleum products between the U.S. on the one hand, and Venezuela and the Dutch West Indies on the other, are such as to render large imports from Latin America unlikely. The U.S. exports considerable quantities of gasoline, gas oil and other petroleum products to the Dutch West Indies. Since Dutch West Indian gasoline is somewhat inferior in quality, U.S. gasoline is blended with it to create a more acceptable export product. Furthermore, Venezuelan-Dutch West Indian production and refining is almost exclusively controlled by two American companies, and one foreign company that operates in the U.S. Even if the present import tax were abolished, these companies would probably not find it in their interest to increase shipments to this country substantially. In any event, Latin American competition in U.S. markets, other than on the Atlantic seaboard, is almost inconceivable.

These various facts indicate that removal of the petroleum tax would merely produce a further, but not very large, increase in imports of crude and fuel oil at or near the Atlantic seaboard. Such a rise in imports might enable the U.S. to recover part of the refining business lost in recent years to the Dutch West Indies. It would, moreover, permit this country to conserve its own petroleum reserves, which have been dwindling more rapidly than those of the rest of the world.

COPPER

For many years prior to the depression the U.S. copper trade was on an export basis. From 1929 to 1932 imports exceeded exports. Thereafter, until the war broke out, this country had an export surplus averaging 83,000 tons a year from 1933 to 1938, as compared with 95,000 tons from 1922 to 1928. Imports in peacetime are primarily free in bond for smelting or refining and re-export. Imports of taxable copper amounted to only about 5 per cent of total copper imports during the years 1933-38, when the annual average ad valorem equivalents of the tax ranged from 85 to 35 per cent.

Although U.S. imports from Latin America declined from 1932 to the outbreak of war, Latin America remained the principal source of supply. In the period 1935-38, Chile, Mexico and Perû supplied 35, 19 and 15 per cent, respectively, of total average imports of 214,000 tons a year. Latin America compensated for the decline in exports to the U.S. by increased shipments to other regions, particularly Europe. Most of the copper sent to this country is normally destined, after refining in bond, for consumption in European and other non-American markets. Hence all but a small part of Latin American peacetime output is dependent upon the European market.

Prior to the war, copper prices outside U.S. markets were directly affected by the output-control activities of the International Copper Cartel, composed of the principal producers in Chile, Rhodesia and the Belgian Congo. With the increase in world demand for copper due to the war, the Cartel has suspended operations.

Before the United States began to levy an import tax in 1932, the price of electrolytic copper in London was slightly in excess of the New York price, owing primarily to transportation charges. After the tax was imposed, the New York price customarily exceeded London quotations until the spring of 1939. Since that time war and preparations for war have made the New York-London price relationship abnormal. From 1933 to 1938 the New York price averaged .43 cent higher than London quotations.

There is some evidence that in recent years foreign costs of producing copper have tended to be less than domestic. Nevertheless, since the U.S. was on an export basis for some years before the war, it is doubtful if removal of the tax on Latin American copper would stimulate imports materially. Shipments would continue to be, as in prewar years, primarily for smelting or refining for re-export. Should the price of copper fall after the war, the International Copper Cartel would undoubtedly be reconstituted to stabilize prices. The demand for copper does not increase rapidly in response to price reductions. The Cartel, with its effective control over production and trade, would, even with the U.S. tax removed, find it much more profitable to maintain prices than to make large sales by raiding the U.S. market.

On the whole, free trade with Latin America, although it might result in liquidation of certain marginal producers, would probably not constitute a threat to the major portion of our copper industry.

PRODUCTS WHICH THE U.S. IMPORTS

With respect to most of the remaining important dutiable Latin American commodities the U.S. is on a net-import basis. A tariff is most likely to discourage imports of such commodities, and to keep up domestic prices.

FLAXSEED

In the period 1926-37, imports of flaxseed, used mainly in the manufacture of linseed oil, supplied—

beef

57.5 per cent of U.S. consumption. The duty under the Tariff Act of 1930 is 65 cents per bushel of 56 pounds, equivalent in 1938 to 50 per cent ad valorem. Over 80 per cent of flaxseed imports have come from Argentina, and the remainder primarily from Uruguay. More recently, imports have supplied a much smaller percentage of U.S. consumption—about 45 per cent in the crop year 1939-40 and 30 in the crop year 1940-41. No flaxseed is exported from the U.S. During practically all of the period 1929-40 the price at Buenos Aires was less than at Minneapolis by more than the U.S. duty.

For many years the production of flaxseed in this country appeared to be a declining industry. Formerly the bulk of the flax crop was raised on newly broken sod. On account of various flax diseases, continued cultivation of flax in consecutive seasons tended to reduce the yield markedly. Production decreased from 31.2 million bushels in 1924 to 21.7 million in 1930, and continued to fall—despite the high 1930 duty—to 8.2 million in 1938. In recent years, with the development of disease-resistant varieties, flax has been grown with increasing success in rotation with other crops, particularly corn, in the older farming areas of the North Central states. The Agricultural Adjustment Administration has encouraged the sowing of flaxseed by permitting flax, when seeded with certain legumes or grasses, to be classified as a non-depleting crop. Furthermore, the recent establishment of a cigarette-paper plant in North Carolina enables many flaxseed growers to sell their flax straw at $1 to $3 an acre, instead of having to pay for its removal. These factors, together with the increased demand for flaxseed resulting from greater building activity in recent years, brought about an increase in production to 20.2 million bushels in 1939, 31.2 million in 1940, and an estimated total of 30.7 million in 1941. About half the output comes from Minnesota, and the remainder primarily from the Dakotas, California and Iowa.

In spite of this great improvement in the position of domestic flaxseed, the low cost of production in Argentina makes it probable that removal of the import duty would cause a considerable decline in the price and output of flaxseed in the U.S. The price realized by Argentine exporters to this country would rise to some extent, thus stimulating Argentine output and shipments. In the United States the fall in prices would benefit domestic consumers, but would not greatly increase consumption since the demand for flaxseed is relatively inelastic. If consumption should rise, Latin America, rather than domestic producers, would supply the additional quantities needed.

CHILLED AND FROZEN BEEF

Although chilled and frozen beef are negligible items in the foreign trade of the U.S., these commodities can be classified with net-import products because this country would undoubtedly buy substantial quantities in the absence of tariff and sanitary barriers.

The duty on fresh and frozen beef was increased from 3 to 6 cents a pound by the Tariff Act of 1930. This rate, equivalent in 1938 to 53.8 per cent ad valorem, is virtually prohibitive of imports. Removal of the duty, however, would not necessarily help Latin America, for the Tariff Act of 1930 also contains a stipulation forbidding the importation of fresh, chilled or frozen meat from any foreign country in which the Secretary of Agriculture finds that hoof-and-mouth disease exists. Under this provision, Argentina has been able to send only cured meat to the United States.[5] Up to the present the U.S. Senate has refused to ratify a convention concluded by the U.S. and Argentina on May 24, 1935 which would lift this import prohibition for those sections of Argentina in which the disease is not found. Even if ratified, the convention would affect only Patagonia, the southern part of Argentina, which contains relatively small numbers of beef cattle and produces no beef for export. The abolition of the duty on South American beef would therefore be effective in increasing imports only if the sanitary prohibition were lifted or modified much more drastically than is contemplated in the pending convention.

If all import barriers were leveled, an important market for Argentine chilled and frozen beef would undoubtedly develop in this country. The beef is of acceptable quality and could be sold in substantial areas of the U.S. much more cheaply than domestic beef of comparable grade.

CANNED MEATS

Canned meats are a minor item in Latin American exports. Corned beef is about the only Latin American canned meat which interests the American household consumer, who buys it principally for its convenient form and for variety. In 1938 the United States imported 79 million pounds of canned beef, including canned corned beef, of which 43 and 33 per cent came from Argentina and Uruguay, respectively. The duty of 6 cents a pound, on the basis of total 1938 imports of canned beef, was equivalent to 56.2 per cent ad valorem.

5. On June 27, 1941 the U.S. Department of Agriculture declared that the Tariff Act did not bar imports of chilled and frozen meat from the territory of Tierra del Fuego in Argentina, apparently because the Attorney General had ruled that this territory, separated from the mainland and free of disease, could be considered a separate country. Tierra del Fuego, however, produces only a few thousand tons of beef for export.

Its removal might result in considerably increased imports from Latin America. The American consumer's overwhelming preference for fresh meat, however, definitely limits the extent to which imports of canned meat could be increased.

The U.S. has virtually no domestic corned beef canning industry which would be affected by a rise in imports. Imported canned corn beef competes primarily with medium-to-low-priced sausage and canned fish, and very little with the lower grades of fresh meats. Total exports of all kinds of canned meats from Argentina, Uruguay and Brazil combined amounted in 1937 to only 298 million pounds, compared with 6,769 million pounds of beef and veal produced in the U.S. A relatively large increase in imports would not displace any important percentage of fresh beef, and its effect would be widely distributed geographically. Furthermore, increased foreign competition would affect primarily the less important part of the domestic producer's product. By and large it appears improbable that the domestic live-stock or packing industry would be injured by removal of the duty on Latin American canned meats.

WOOL

The United States imports large quantities of wool, and exports very little. Domestic production consists almost exclusively of apparel wool. Imported wool of this type is subject to a duty ranging from 24 to 34 cents per pound of clean content. Our net imports of apparel wool, on a greasy shorn basis, averaged only 67 million pounds a year from 1930 to 1939, compared with 162 million from 1920 to 1929. Domestic output, however, increased almost enough to offset the decrease in imports, so that the annual consumption of wool, on a greasy shorn basis, was 546 million pounds in 1930-39, as compared with 554 million pounds in 1920-29.[6]

Wool imported into this country for use in the manufacture of floor coverings is duty-free. The U.S. imported 143 million pounds (actual weight) of duty-free wool in 1939, of which 46 million pounds came from Argentina and the rest almost entirely from outside the hemisphere. Imports of apparel wool have come mainly from outside Latin America; in 1939 22 million pounds of dutiable wool came from Argentina, 17 million pounds from Uruguay, and 1.2 million pounds from Chile, compared with 60 million pounds from countries outside Latin America—principally Australasia and South Africa.[7] Imports from South America have been predominantly of the coarser grades, not finer than 44s, which the U.S. does not produce in large quantities, while imports from outside the hemisphere have consisted primarily of wool similar to that produced here. Nevertheless, removal of the duty on Latin American wool would certainly result in increased importation of the finer grades. According to an estimate published in *Dalgety's Wool Review,* 70 per cent of the total Argentine clip in 1937-38 was 44s and finer. Imports would rise after abolition of the duty to the extent that the present tariff effectively bars foreign wool. When the demand for wool exceeds domestic production so as to necessitate regular importation, the duty appears fully effective; but in times of depression, when imports are often spasmodic and tend to be confined to specialty wools, it is much less effective.

Removal of the duty would give a substantial differential advantage to South American wool; because the ad valorem equivalent of the tariff on all dutiable improved wool imports into the United States in 1939 was 78 per cent. Since most South American wool has been marketed in Europe, it probably could not be sold here immediately at the price of Australasian and South African wool less duty. Nor is it likely that South American wool would at once be available in sufficient quantities to replace the non-American product entirely. South American production, however, is abundant. Argentina and Uruguay together produce about 400 million pounds of apparel wool a year—which far exceeds the total annual imports of the U.S. —is sufficiently well distributed by grade to supply this country's import requirements reasonably well, including the demand for "merino" or "fine" wool. The cost of producing wool in Australasia is apparently not lower than, if as low as, the cost in South America. Less apparel wool than formerly would probably be sent from Latin America to Europe, which would rely increasingly on non-American sources. The U.S. might eventually shift to South America for almost all its foreign apparel wool, except unimportant amounts of specialty wools. Although U.S. consumers generally prefer the characteristics of Australasian and South African apparel wools, the differences between these and the South American types does not appear important enough to prevent the shift in consumption, which would be stimulated by lower prices.

Imports from South America would increase not only because purchases of non-American apparel wools—60 million pounds in 1939—would virtually cease, but also because the lower-priced wool would have a competitive advantage over substitute materials, such as rayon waste and rags.

The price of wool in this country would prob-

6. The figures for imports and consumption are estimates of the New York Wool Top Exchange Service.

7. Figures represent actual weight.

ably fall enough to cause serious difficulty for high-cost producers. Eventually it would probably fall by the full, or nearly full, amount of the duty. Since this country undoubtedly contains a much larger number of the high-cost producers of the hemisphere than South America, it is probable that South American production would gradually expand at the expense of U.S. output. The great bulk of sheep raisers in this country, however, could probably continue in business owing to their proximity to, and more intimate knowledge of, the market.

The high price of wool tempts domestic producers to glut the market for lamb and mutton, so that the profit made on wool is lost in part on other products of the industry. Moreover, the maintenance of raw wool at an artificially high price has stimulated substitution of other fibers. If this trend toward substitution were checked, it would partially compensate the wool grower for the reduction in wool prices resulting from removal of the duty.

LONG-STAPLE COTTON

Long-staple cotton (1⅛ inches and over), free of duty under the Tariff Act of 1922, was made dutiable at 7 cents a pound by the Act of 1930. The average annual ad valorem equivalents of this rate in the seven crop years ended 1937-38 ranged from 36 to 63 per cent for Egyptian and 40 to 69 per cent for Peruvian cotton. In addition to the duty, the U.S. since September 1939 has imposed annual quota limits, allotted by countries, on imports of cotton.

Egypt ranks first, the U.S. second, and Peru third in production of long-staple cotton. U.S. imports averaged about 240,000 bales a year (mainly from Egypt) before the Tariff Act of 1930, and about 60,000 bales since. This country's exports declined from about 334,000 bales in 1929-30 to approximately 34,000 bales in 1938-39. Long-staple regularly commands a higher price than short-staple cotton (duty-free) because of the additional uses to which it is adapted. Moreover, long-staple cottons are subdivided into groups with wide price differentials and distinct economic problems.

Ordinary long-staple cotton. Cotton with a staple length from 1⅛ to 1⅜ inches (called here for convenience "ordinary long-staple") is of particular interest in this discussion because most of the Peruvian crop, totaling nearly 400,000 bales, falls within this classification. Brazil also has a substantial output, which is not uniform in quality but could be standardized with sufficient price incentive.

Before the duty was imposed in 1930 the U.S. imported considerable quantities of ordinary long-staple cotton from Egypt and Peru, but also exported substantial amounts. Slight differences in the characteristics of the cotton of the three countries accounted for this two-way U.S. trade. The tariff of 1930 precipitated a fall in imports. In the first eight years under the duty imported cotton amounted to only 6 per cent of the ordinary long-staple cotton consumed in this country, compared with 37 per cent in the crop year 1929-30. In the latter year imports of long-staple cotton (including some short-staple) from Egypt and Peru totaled 116,000 and 18,800 bales, respectively; in 1931-38 the corresponding figures were 31,000 and 1,200 bales a year. Production of ordinary long-staple cotton in the U.S. averages about 700,000 bales (less than 7 per cent of our total cotton crop); it was 683,000 bales in 1929, reached a maximum of 970,000 in 1938, but declined to 534,000 in 1939. Following imposition of the duty, this country lost the bulk of its foreign market for ordinary long-staple cotton. Exports dropped from 329,000 bales in the crop year 1929-30,[8] to an annual average of 115,000 bales in the first eight years under the tariff. They fell to 34,000 bales in 1938-39, but recovered to 122,000 bales in 1939-40 under the stimulus of an export subsidy.

Peru, which had never sent the U.S. much more than 10 per cent of its ordinary long-staple crop, had no difficulty in finding alternative markets. Additional outlets for the Peruvian product opened up, in so far as the 1930 tariff created a greater demand for domestic long-staple cotton in this country, and thus reduced sales of such cotton to foreign manufacturers. Peruvian production of long-staple cotton, which constitutes the country's most important export crop, even increased from 271,000 bales in 1930-31 to 376,000 bales in 1937-38, and slightly more in later years.

Removal of the duty on long-staple cotton would without doubt stimulate importation of types of Peruvian cotton which are sufficiently similar to compete with the long-staple cotton produced in this country. Prices would decline to some extent, although Peruvian cotton is not produced cheaply and does not undersell the U.S. product on free markets. While Peruvian cotton is preferred for underwear manufacture in England, manufacturers in the U.S. do not find it suitable for all uses, especially because much of it is rougher in texture than domestic cotton. Peruvian cotton would not be extensively substituted for U.S. cotton unless the latter were much higher in price.

8. Exports recorded as "Upland cotton 1⅛ inches and over" in earlier years were not stapled according to U.S. official standards.

Moreover, part of the increased imports from Peru would probably replace dutiable imports from Egypt rather than domestic cotton. Total U.S. consumption of long-staple cotton might also rise slightly if prices were lower, and a portion of lost exports might be regained. On the other hand, removal of the duty might cause Brazil to shift from short to long-staple cotton, which would then be shipped to this country.

The increase in imports from Peru, followed, perhaps, by a drop in the price of domestic long-staple, might adversely affect producers of certain types of cotton closely resembling the Peruvian. These producers are mainly concentrated in Mississippi, California and Arkansas. The great variety in characteristics and uses of cotton from Peru, Egypt and the U.S., and the fact that these uses vary from period to period, make it impossible to predict with any confidence the degree of substitution of Peruvian for domestic or Egyptian cotton. If Brazil should shift to production of long-staple cotton, the competition facing domestic producers would of course increase.

Extra-long-staple cotton. In the last twenty years Peru has undertaken the cultivation of Pima cotton, which is a variety of the American-Egyptian type produced in Arizona and has a staple length of 1⅜ inches and longer. Less than 10 per cent of the Peruvian crop consists of Pima. Its principal use is in the manufacture of fine goods, since it is particularly adapted to mercerizing. It is also employed to some extent in making heavy tires. Although Peruvian Pima is somewhat rougher in texture than the domestic product, it can be used for the same purposes.

The U.S. does not export cotton of this type, since its own production has never been enough to meet domestic demand. Imports have come almost entirely from Egypt. Domestic production in recent years has varied from 14,000 to 36,000 bales, and has sold at a price of about 25 cents a pound, compared with about 10 cents for short-staple cotton. Since the duty has probably been fully effective, its removal, combined with the abolition of quotas, would undoubtedly lower the price considerably in the domestic market. It would stimulate Peruvian exports to this country, encourage Peruvian and other Latin American production, and result in rather extensive displacement of domestic Pima in the U.S. market. Some growers in Arizona would probably be forced out of business. Production of extra-long-staple cotton, however, is difficult and expensive in any part of the world, and may before long lose its market to strong rayon.

TOBACCO

This country is by far the world's leading tobacco exporter. In 1938 exports amounted to $170,000,000, while imports of tobacco and tobacco manufactures were valued at $39,000,000. U.S. imports from Latin America come almost exclusively from Cuba, which ships about half its exports to this country, and is virtually the sole foreign source of cigar leaf filler, scrap tobacco and cigars for the U.S.

Cuban tobacco, however, is so different from that which the U.S. exports that it may be considered a separate commodity in international trade. Cuban filler tobacco possesses a characteristic aroma which enables it to command a much higher price than that produced in the U.S., Puerto Rico or the Philippines. Most of the Cuban leaf is blended with domestic and Puerto Rican leaf and supplements rather than competes with, domestic types. In 1938 imports of cigar filler and scrap tobacco from Cuba amounted to 15.7 million pounds, while domestic production totaled 45.6 million pounds.

The duty paid on imports of Cuban cigar leaf filler in 1937 was equivalent to 53 and 56 per cent ad valorem for unstemmed and stemmed tobacco respectively. In the U.S. Cuban tobacco has for many years enjoyed substantial tariff preferences, which were increased by the trade agreement effective September 3, 1934. After a lapse from March 17, 1936 to December 22, 1939, these additional preferences were reinstated by a supplemental agreement on December 23, 1939.

Owing to the special quality of Cuban tobacco, these preferences have little effect on competition in the U.S. market between Cuban and other foreign tobacco. For the same reason, removal of the duty, even though it is relatively high, would not be apt to affect substantially the competitive relations between Cuban and domestic tobacco in the U.S. market or result in greatly increased imports of Cuban tobacco. This would be true both of Cuban cigars, of which in recent years this country has imported only a few high-priced brands, quite different in quality from domestic cigars, and of Cuban cigar-filler tobacco, in which the U.S. has a substantial interest. Elimination of the duty on filler tobacco would reduce its cost to domestic cigar manufacturers, thus enabling them to lower the price or improve the quality of cigars sold to the consumer. Blending of the Cuban leaf with domestic and Puerto Rican tobacco would undoubtedly continue, with a tendency to use a higher percentage of Cuban tobacco in the lower-priced cigars. The demand of cigar manufacturers for Cuban leaf would therefore increase. Removal of the duty might also bring about some importation

from Cuba of the cheaper grades of filler tobacco previously sent to Spain and certain other countries. Should such imports become substantial, growers in Puerto Rico and the continental United States might be adversely affected. Cigar leaf filler producers in this country are concentrated in relatively restricted areas of Pennsylvania, Ohio, New York, Georgia and Florida. The producers of cigar wrapper and binder leaf in the Connecticut Valley, Wisconsin and Minnesota might also feel the increased competition. The impact would probably be felt first, however, by Puerto Rican growers.

Free trade with Latin America might encourage Latin American countries other than Cuba—especially Brazil—to develop a type of tobacco suitable for the U.S. market. Tobacco, however, has a special taste and aroma closely correlated with soil and climate. Brazil would therefore find it a slow and difficult process to grow tobaccos which would fulfill the requirements of this country's tobacco-manufacturing industry.

SUGAR

This country imports the greater part of its sugar from its insular possessions and foreign countries. Since 1934, except for a few months in late 1939, the amount of sugar marketed in the U.S. by various suppliers has been limited by law. In 1938 the continental United States supplied 32.3 per cent of the sugar consumed in this country; Hawaii, Puerto Rico and the Virgin Islands, 25.1 per cent; the Philippines, 13.6 per cent; Cuba, 26.9 per cent; and foreign countries other than Cuba, 2.1 per cent. The U.S. takes about two-thirds of Cuba's sugar exports. The general duty on sugar is 1.875 cents a pound (96° centrifugal basis); that on Cuban sugar, .9 cent a pound. Sugar from the Philippines, Hawaii, Puerto Rico and the Virgin Islands enters duty-free.

If the restrictive quota system were continued in the U.S., removal of the tariff would have little effect on imports. The principal result would be to transfer from the U.S. Treasury to exporters in Cuba and other Latin American countries a sum of money equivalent to the duty they formerly paid on sugar shipped to this country. Cuban exporters alone would pocket over 30 million dollars a year. Since the limitation on total supplies is the primary factor in determining the price in the U.S., the consumer would continue to pay the same price for sugar.

Should the quota system and tariff protection be simultaneously abandoned, producers in the U.S. and its insular possessions would immediately feel the full impact of unlimited competition with Latin American sugar. The price would decline and a substantial proportion of domestic producers would probably be forced to discontinue production. Imports from Latin America would rise to the extent that sales of domestic sugar and imports from the insular possessions declined, and to the extent that U.S. consumers might want to increase their purchases in response to lower prices—an amount which, in view of the relative elasticity of demand for sugar, might be of some importance. Since there would no longer be any tariff differential operating to their disadvantage, abolition of the duty and the quota system might enable the Dominican Republic and Peru to capture a larger share of this country's market at the expense of Cuba.

ZINC AND LEAD

Mexico and Peru are the only important Latin American zinc producing and exporting countries. Mexico mines and exports much more than Peru, while production in the U.S. far exceeds that of any other country. The duty under the Tariff Acts of 1922 and 1930 was 1½ cents a pound on the zinc content of ore, and 1¾ cents a pound on zinc metal. Although lowered by 20 per cent in the trade agreement with Canada, effective January 1, 1939, the reduced duties were still equivalent to 62 and 46 per cent ad valorem, respectively, in 1939. Under these high rates only a small part of American consumption has been imported—11 per cent in 1939. Until 1929 this country had a substantial export surplus, which subsequently dwindled—becoming an import surplus after 1934. At all times a large part of the imports have been either ore free-in-bond for smelting and re-export, or ore and slabs on which a drawback was paid when products containing zinc were exported.

In recent years the international position of this country's zinc mining and smelting industry has become increasingly unfavorable. Not only did the U.S. export balance vanish, but the domestic price, prior to the war, came closer and closer to the London price plus the full duty. At present the war is keeping industry busy and prices high, but, if peace returns and the tariff on Latin American zinc is removed, the domestic industry would undoubtedly be placed at a great competitive disadvantage. Prices would decline, and imports from Mexico and Peru would increase substantially.

The lead situation is quite similar. Mexico and Peru are important lead producers and exporters. This country, the largest producer, imports a little from these and other countries, but imports are small compared with production. U.S. duties of 1½ and 2⅛ cents a pound on lead ore (lead content) and lead metal, respectively, were equal in

1938 to 37 and 85 per cent ad valorem. Since the industry leans heavily on this protection, removal of the duty on Latin American lead after the war would probably result in considerably larger imports from Mexico and Peru and a decline in the domestic price.

Removal of the duties on Latin American zinc and lead might therefore be expected to force out of business a substantial number of high-cost U.S. producers in these marginal industries.

CORN

This country usually buys little foreign corn but, because of droughts, 43 million bushels were imported in 1935, 31 million in 1936, and 86 million in 1937. Since the 1937 crop, supplies have been ample to satisfy domestic requirements, and imports in each of the years 1938 and 1939 amounted to less than half a million bushels. The duty on corn is 25 cents per bushel of 56 pounds, equivalent in 1938 to 38 per cent ad valorem. While a small amount is exported regularly—in some years substantial amounts—to markets where the U.S. competes on equal terms with Argentina, it is estimated that only 15 per cent of the corn raised here leaves the counties where it grows.

Removal of the duty on Argentine corn might, except in years when the U.S. has large export surpluses, considerably increase imports for consumption in coastal areas, since the cost of transporting corn by rail from the corn belt to the East or the Pacific is materially higher than the cost of water transportation from Argentina to this country. To a large extent, the increased imports would be for the use of poultry growers and corn-product manufacturers, who prefer the special characteristics of certain types of Argentine corn. Unless there were an acute domestic shortage, Argentine corn would be unlikely to penetrate into the great corn-consuming regions of the interior, or materially affect the price received for the bulk of the domestic crop. In 1938 Argentina's total corn exports amounted to only 4 per cent of this country's corn production.

WINTER VEGETABLES AND FRUITS

Removal of tariff barriers might stimulate a considerable increase in the relatively small quantities of winter vegetables now imported by the U.S. from Mexico. The principal vegetable imported from Mexico in 1938 was tomatoes, which came in despite a tariff rate equivalent to 100 per cent. In 1938 the U.S. also imported small quantities of fresh peas, dried chick-peas and peppers, on which the duty equalled 80, 40 and 77 per cent ad valorem, respectively. High tariffs also apply to other Mexican vegetables. Although the abolition of duties would probably enable Mexican vegetable growers to sell much larger quantities in this country, these would constitute only a very small proportion of domestic production. For instance, the entire Mexican bean crop is only one-twelfth that of Michigan. Moreover, most Mexican vegetables would be imported at a season when they would not compete with U.S. products, so that the effect on the domestic industry would be negligible. Cuba, Chile and Argentina might also find a larger market here for fresh vegetables during the winter season.

On the other hand, certain limited regions which grow vegetables in competition with Mexico and Cuba—particularly Florida—would probably feel the increased competition rather keenly. The cost of production in Florida is relatively high, due in part to inflated land values and fertilizing expenditures necessitated by the poverty of the soil. Although free trade would occasion some readjustment in a small domestic area of uneconomic production, it would unquestionably help consumers to obtain the rounded diet necessary for health in seasons when domestically grown vegetables are not available in sufficient quantities or at reasonable prices.

The possibility of expanding this country's import trade in winter fruits is much more limited, since duties on fresh fruits are on the whole much lower than those on fresh vegetables. Some fresh-fruit duties, however, are high enough so that their removal might be fairly effective in increasing imports. Chile, for instance, would probably benefit from elimination of the 35 per cent duty on melons, as might Cuba, Mexico and Argentina. At the same time, such action would be helpful to consumers without affecting U.S. growers markedly.

OTHER PRODUCTS

Latin America also exports various other minor products which are now dutiable in this country, such as Mexican cattle, Brazilian manganese ore, and products of native arts and crafts. It appears probable that duty-free entry would stimulate the U.S. to import some of these products from Latin America, and the increased trade would have a much more important effect proportionally on the economy of the exporting countries than on that of this country.

BENEFITS TO LATIN AMERICA

Latin American countries would not all profit equally from the inauguration of free trade with the United States. Important Argentine products

which might benefit are flaxseed, wool and, in some years, corn. In 1938 exports of flaxseed, wool and corn amounted to 12.9, 11 and 12.9 per cent, respectively, of the value of total Argentine exports. An increase in flaxseed and wool exports would be particularly important. Under free trade, Argentine exports of canned corn beef, which in 1938 constituted 3.2 per cent of total exports, would also increase. Exports of fresh fruits and vegetables to this country during the winter season might also be developed. Argentina might even ship considerable amounts of wheat to the U.S. if this government continues to support domestic wheat prices and Argentina has "distress" stocks on hand. Finally, relaxation of the sanitary embargo would enable Argentina to export to the U.S. substantial quantities of chilled and frozen beef.

Uruguay would profit from increased exports of flaxseed, canned meats and wool, which amounted in 1938 to 5.3, 5.6 and 43.6 per cent, respectively, of total exports.

Copper, representing 48.2 per cent of the value of Chilean exports in 1938, would be the only important Chilean commodity involved; and the increase in exports of this metal would probably not be great. On the other hand, certain products not now significant in Chile's exports, such as fruits and perhaps vegetables for the U.S. winter trade, might assume more importance.

Peru would probably benefit somewhat from having its long-staple cotton on the U.S. free list. In 1938 17.7 per cent of Peru's exports consisted of cotton. Removal of the duty on zinc and lead might also help Peru, although these products now represent a very unimportant part of the country's economy. It is doubtful if Peru would send the U.S. much larger quantities of copper, which represented 16.9 per cent of total Peruvian exports in 1938. On the other hand, Peru might substantially increase its sales of sugar to this country if import quotas as well as the duty were removed.

Since 90 per cent of total U.S. imports from Brazil were duty-free in 1939, Brazil would not derive much additional advantage from complete duty-free access to our markets. The sole Brazilian product likely to show any immediate increase in exports would be manganese ore, which in 1939 represented only .4 per cent of the total value of Brazilian exports. A small rise in canned corn beef exports might take place, and Brazil might eventually produce long-staple cotton for the U.S. market.

Venezuela would certainly welcome an opportunity to ship more petroleum to this country. In 1938 petroleum and petroleum derivatives constituted 93.3 per cent of its exports, and crude petroleum alone, 89.9 per cent. The increase in U.S. imports, however, would probably represent only a small part of Venezuela's petroleum exports. Duty-free entry might also benefit Colombia, but probably much less than Venezuela. Crude petroleum accounted for 25.8 per cent of total Colombian exports in 1938.

Mexico would profit from removal of U.S. duties on lead, zinc, cattle, winter vegetables, and perhaps winter fruits. In 1938 lead, zinc and cattle represented 15.8, 10.5, and 1 per cent, respectively, of the total value of Mexican exports, while winter vegetables and fruits were negligible. Mexico might get a little help from elimination of the U.S. tariff on copper, as well as petroleum and its products, which in 1938 accounted for 8.1 and 8.6 per cent, respectively, of its exports. Free trade would also stimulate purchase of Mexican pottery, silver and tin ware, and other native handicraft products.

Because of its exports of sugar, Cuba might reap the most immediate and perhaps the greatest gain. If the U.S. abolished its import duty on sugar while retaining the restrictive quota system, Cuban exporters would receive over 30 million dollars—the customs income which the U.S. Treasury now derives from imports. On the other hand, if the quota were also abandoned, Cuba would experience a large increase in its sales of sugar to this country. Cuba would also benefit from an increase in its exports of cigar-filler tobacco. In 1938 tobacco and tobacco manufactures amounted to 9.5 per cent of the total value of Cuban exports. In addition, Cuba would be able to sell us more winter vegetables, and perhaps winter fruits.

The Dominican Republic would be enabled to ship larger quantities of sugar to the U.S., provided the quota restrictions as well as the duty were lifted. In 1938 60.4 per cent of its exports consisted of sugar.

EFFECT ON UNITED STATES

The domestic industries most likely to suffer from removal of duties on Latin American products are the flaxseed, long-staple cotton, zinc and lead industries. Some adverse effect would probably also be felt by wool growers and possibly by the cash-corn and copper industries. The petroleum industry might experience some decline in its sales of crude petroleum and fuel oil on the Atlantic seaboard. Producers of cigar-filler tobacco in Puerto Rico and the U.S., and of winter vegetables in Florida, would suffer to some extent. Simultaneous abolition of the sugar duty and quotas would necessitate substantial reduction in the production of sugar in the U.S., the Philip-

pines, Hawaii, Puerto Rico and the Virgin Islands. Free imports, together with relaxation of the sanitary embargo, would mean much greater competition for domestic fresh and chilled meats. The effect of the removal of import restrictions on wheat production is problematical.

Many years of experience with tariff legislation demonstrate that reduction or removal of import duties generally causes far less economic dislocation than is feared by interested producers. Seldom does tariff reduction wipe out any important part of an industry. It is more likely to lead, in certain cases, to reorganization of producing units at lower production costs. In any event, the shock of adjustment to free trade could be cushioned by removing the import duties gradually.

While domestic producers of certain raw materials and foodstuffs would be injured, the great mass of consumers would benefit from the availability of products at lower prices. In some instances, domestic industries producing these commodities might even be able to share in the increased consumption which might follow a decline in prices with a consequent reduction in the competition of substitute materials. Such might be the case in the wool industry. Furthermore, free trade would stimulate greater efficiency in the industries affected by increased foreign competition. In the case of some products, conservation of domestic resources would be promoted by increasing imports. At present this country's petroleum, copper, lead and zinc reserves are dwindling rapidly.

Free access to the U.S. market would provide Latin American countries with a larger dollar income from exports, thus enabling them to buy much more in this country. The resulting benefit to domestic export industries would be passed along in some measure to other industries and to the country as a whole.

Any balanced appraisal of the probable effects of removing duties on Latin American products cannot, of course, disregard the obverse side of the picture—elimination of Latin American tariffs on U.S. products. The abolition of import duties on goods from this country would undoubtedly involve great sacrifices for Latin American governments, which depend to a large extent on customs revenue. Yet such a step would lower costs of living and enable Latin America to increase its purchases from the U.S.

Free entry of Latin American products into this country would stimulate domestic export industries and benefit a large number of consumers. While all Latin American countries would not profit equally, they would undoubtedly hail the removal of U.S. import duties as a concrete and constructive manifestation of the Good Neighbor policy. It would do more than speeches, loans and cultural cooperation to strengthen ties between this country and Latin America.

Readjustments in certain U.S. industries would be entailed. The government would be faced with a degree of responsibility for the welfare of the labor and capital displaced in the industries most affected by increased Latin American competition. This might involve relief during the readjustment period and some aid in the reorientation of labor and capital. Provided the duties were lifted gradually, however, the readjustments could probably be made without an undue shock to the economy of the United States.

The October 15 issue of FOREIGN POLICY REPORTS *will be*

AFRICA IN THE WORLD CONFLICT *by Louis E. Frechtling*